

**WHATCOM COUNTY, WASHINGTON**  
**January 1, 1993 Through December 31, 1993**

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**Schedule Of Findings**

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1. The County Should Prepare And Submit Timely Annual Financial Reports

The county's 1993 annual reports were not prepared and submitted to the Office of State Auditor by the due date of May 30 as required by RCW 43.09.230. The report was not completed until August 1994.

When the county does not prepare and file accurate financial reports as required by state law, users of the report are denied access to the county's financial information. Users and their concerns include:

- a. The Washington State Legislature, which receives a copy of the annual volume of comparative statistics for all municipalities, published pursuant to RCW 43.09.230.
- b. The general public, which is interested in reports on the cost of public services.
- c. Council members, whose use of the report as a management tool is diminished when the report is not issued timely.

The reports were late due to the county's implementation of a new General Ledger System in 1993 and 1994.

We again recommend that county officials ensure the timely preparation and filing of annual reports.

**WHATCOM COUNTY, WASHINGTON**  
**January 1, 1993 Through December 31, 1993**

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**Schedule Of Federal Findings**

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1. The Fixed Asset Recording System Should Contain Information Required By Federal Grant Requirements And The Fixed Asset Control System Should Be Strengthened

During our audit of the county's fixed asset system we noted the following weaknesses:

- a. The county's fixed asset records do not identify the source of funds used to acquire assets, who holds title to the property or information on the disposition of the assets.
- b. The county's system fails to ensure that all assets are tagged with numbers which identify them as county property.
- c. The county failed to perform a complete physical inventory of fixed assets during 1992 and 1993.
- d. The county does not maintain an accurate subsidiary fixed asset ledger with which to reconcile yearly physical inventory counts.
- e. The county lacks a system for approving and recording fixed assets determined to be ready for disposal and often fails to delete fixed assets from the detailed accounting records upon disposal. In addition, the county does not have an adequate system for reducing the related account in the general fixed asset account group when assets are contributed to the equipment rental fund.

RCW 43.09.200, Division of municipal corporations - Uniformed system of accounting, states in part:

The accounts shall show the receipt, use, and disposition, of all public property. . . .

RCW 43.09.200 requires the State Auditor to prescribe uniform accounting systems. The State Auditor prescribes the *Budgeting, Accounting and Reporting System* (BARS) manual which states, in Volume 1, Part 3, Chapter 7, page 7:

Accountability for fixed assets is required of all local governments, regardless of size. In addition, fixed asset accounting is required for cities and counties of over 8,000 population . . . .

The BARS manual, Volume 1, Part 3, Chapter 7, page 17 further states:

An adequate fixed asset accounting system will enable your government to meet statutory requirements, to produce adequate records and reports, and to safeguard assets properly.

Additionally, for any fixed assets purchased by the county using federal funds, the Common Rule for *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments* prescribed by U.S. Office of Management and Budget (OMB), Subpart C, Section .32(d), Management Requirements, states in part:

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Article IV, Section 1.10.140 of the Whatcom County Code states in part:

Each county department head shall submit annually to the county purchasing agent an inventory, current as of a date set by the property management committee, of all county-owned personal property. . . .

The county has failed to allocate sufficient resources to implement the necessary internal controls and accounting procedures to properly account for fixed assets. The county has implemented a new general ledger system, but has not yet brought the fixed asset system on-line.

We consider this to be a material weakness in the internal control structure.

The county's lack of adequate accounting procedures and internal controls over fixed assets results in the possibility of errors and irregularities occurring and not being detected in a timely manner, if at all. In addition:

- a. The county is unable to identify fixed assets acquired with federal funds and the final disposition of such property, thereby failing to comply with requirements of the Common Rule. These deficiencies can impair the county's eligibility for future assistance.
- b. Without an adequate system to tag assets, the county loses control over the accountability for those assets.
- c. Failure to perform physical inventories limits the county's ability to determine if all assets in the accounting records are still in the county's possession.
- d. Without maintaining an accurate subsidiary ledger the county is unable to determine that assets are recorded properly and are accurately reported on their financial statements.
- e. Without adequately tracking deleted assets, the county cannot determine the reason for missing assets (i.e. stolen, sold, etc.) and cannot determine if assets are accurately reported on their financial statements.

We recommend that county officials strengthen the fixed asset internal control system to ensure that county property is adequately safeguarded and accounted for properly. We further recommend that county officials develop a fixed asset accounting system capable of demonstrating compliance with federal grantor requirements.

2. The County's Accounting System Should Identify Grant Expenditures By Grant Program

As noted in prior audit reports, federal and state funded grant expenditures are not identified in the accounting records by grant program. Grant expenditure identification is available in decentralized departmental locations only.

The Common Rule for *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments* prescribed by U.S. Office of Management and Budget (OMB), Subpart C, Section 20(b)(2), Accounting Records, states:

Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

In addition, the *Budgeting, Accounting, and Reporting System* (BARS) manual, prescribed by the Washington State Auditor's Office, Volume 1, Part 3, Chapter 5, page 3, states:

At the inception of a grant . . . one or more project codes shall be assigned locally to identify the particular grant. This coding must be incorporated into the basic coding structure the municipality uses to identify all its transactions.

County officials have failed to allocate sufficient resources to implement an accounting system which is capable of providing grant project coding.

Without specific identification of grant expenditures, it is difficult to identify grant expenditures from the county's centralized financial accounting system and accurately track the activity of each grant. In addition, internal controls over grant reporting are weakened.

We again recommend that county officials implement procedures to enable grant financial transactions to be identified in the county's centralized financial accounting system.

3. The County Should Strengthen Controls Over The Purchasing And Voucher Systems And Ensure All Records Are Retained As Required

During our audit of the Purchasing and Voucher systems we noted the following weaknesses:

- a. Purchase orders and requisitions were not always completed as required by county policy.
- b. Purchase orders and requisitions were sometimes completed after the county had been invoiced by the vendor.
- c. Documentation of authorized signatures is not kept on file to allow verification of purchase requisition approval as required by county policy.
- d. The county was unable to locate supporting documentation for some warrants.

RCW 43.09.200, Division of municipal corporations - Uniform system of accounting, states in part:

The state auditor, through such division, shall formulate, prescribe, and install a system of accounting and reporting, which shall be uniform for every public institution, and every public office and every public account of the same class.

. . . The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of each transaction . . . .

Whatcom County Executive Order 91-18, Purchasing Policy states in part:

- a. Purchase Requisitions: The purchase requisition is used by the ordering department to request a purchase order . . . The purchasing department shall receive a requisition before issuing a purchase order. An authorized individual in the ordering department shall sign all requisitions . . .

The Purchasing Department is responsible for verifying vendor codes, budget codes, and signatures before issuing a purchase order . . .

- b. Purchase order: A purchase order authorizes a seller to deliver goods with payment to be made later . . . A purchase order shall be issued before making a purchase, except as noted in section 4 below . . . . (Emphasis added.)

Section 4 exempts only prepaid items, interfund purchases, utility charges, taxes and assessments, travel reimbursements, election ballots and legal notices from the requirement.

The Common Rule for *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments* prescribed by the U.S. Office of Management and Budget (OMB), Subpart C, Section 20(b)(2), Accounting Records, states:

Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

County management's lack of oversight over county policy resulted in the failure to require purchase orders and requisitions for each required transaction, and to review authorized signatures required. Without the purchase orders and requisitions and the review for proper authorization, the likelihood is increased that errors and irregularities will occur and not be detected in a timely manner, if at all. Furthermore, this lack of oversight resulted in the loss of supporting documentation for warrants processed by the county. Without supporting documentation, the county cannot give assurance the warrants were for actual county expenses or for the correct amount.

We consider this to be material weakness in the internal control system.

We recommend the county follow its own policy and ensure each purchase is supported by a purchase order and requisition and signatures are by authorized personnel only. We further recommend the county ensure all supporting documentation for warrants is maintained on file.

